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FISCAL IMPACT STATEMENT

LS 6245 | **NOTE PREPARED:** Dec 2, 2009
BILL NUMBER: HB 1059 | **BILL AMENDED:**

SUBJECT: Property Tax Billing.

FIRST AUTHOR: Rep. VanDenburgh | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill sets the amount of the property tax installment due May 10 as 50% of the taxes payable in the immediately preceding calendar year. It provides that the amount of the second annual installment is due between November 10 and December 15 depending on the availability to the county treasurer of the information necessary to issue the statements. It provides that, if the information is not available to issue statements payable on or before December 15, the county treasurer shall: (1) issue a statement due on or before December 15 in an amount equal to the amount due May 10; and (2) issue a reconciling statement when the information becomes available. It makes conforming amendments. It repeals provisional property tax statement statutes.

Request for Property Tax Distribution: The bill also allows a taxing unit to request a distribution of property tax collections from the county auditor between 10 and 50 days after collection, and entitles the taxing unit to interest generated by the county on the collections if the county auditor fails to comply with the requested date.

Effective Date: January 1, 2011.

Explanation of State Expenditures: Under this bill, after May 10 and not later than November 30 of the tax payment year, counties must transmit to taxpayers a tax statement on a form prescribed by the Department of Local Government Finance (DLGF). The DLGF could incur additional costs in prescribing this form. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

As under current law, the DLGF has to prescribe a form for the reconciling statement. It also has to adopt emergency rules to provide a methodology for a county treasurer to issue statements with respect to real property in an amount different from the amount originally determined. This could be because of changes in the assessed value of the property owing to new construction, damage, and other losses after the property was assessed for the tax payment year in question.

Explanation of State Revenues:

Explanation of Local Expenditures: Counties could incur four different costs in implementing this bill. Please note some of these costs would also be incurred under current law:

(1) Software changes to the billing system. This cost would be incurred solely because of this bill. This is primarily to process the second tax statement required by this bill.

(2) The cost of processing and mailing the first tax statement to taxpayers. This cost is already incurred under current law.

(3) The cost of processing and mailing the second tax statement to taxpayers. Some counties could incur this cost under current law.

(4) The cost of processing and mailing the reconciling statement to taxpayers. Some counties could incur this cost under current law.

For the purposes of this bill, counties will be divided into three categories:

Category 1. These are counties that under current law mail their tax bills on time. Most counties send a single mailing each year containing bills for both (May and November) installments of property taxes. Under this bill, in addition to the costs associated with software changes, these counties would now have to send out a second tax bill. The cost of preparing and mailing a tax bill is estimated to be about $1. This includes cost of printing, transportation (some counties currently contract out the insertion of the tax bills into the envelopes but must transport the bills and envelopes to the contractor), computer accessories (printer cartridges, toner, etc.), and paper. This additional cost could be substantial for some counties.

Category 2. These are counties that under current law would have missed the deadline for mailing the first tax bill but not the second. Under current law, counties may elect to send out provisional statements, and in some cases they can issue the reconciling statement in lieu of the second installment of property taxes. Under this proposal, some counties that would not have elected to issue a provisional bill would now have to mail the first tax statement. These counties would, in effect, have to mail two tax statements thereby doubling the processing costs of sending out tax bills. On the other hand, if the county were going to send out provisional statements, then the impact on these counties (apart from the requisite software changes) would be minimal.

Category 3. These are counties that under current law would have missed both the May and November tax payments. If these counties would have elected to send out a provisional bill in May (for both May and November installments), followed by a reconciling statement when final taxes are computed, then under this bill they would incur the additional cost of mailing the second tax statement.

This bill would result in at least one (1) additional mailing for all counties at an added statewide cost of approximately $4.2 M. In particular, counties would have to mail an extra statement to approximately 560,000 taxpayers whose tax bills are less than $5 and whose tax payments are increased to $5 dollars (under current law) to accommodate the cost of mailing a single tax statement to them. Current law also permits counties to issue a single bill to those taxpayers whose tax liability is less than $25.There are approximately an additional 225,000 such taxpayers (over the 560,000 whose tax bills are $5 or less) who fall into this category. Counties would also have to incur the cost of transmitting a second tax bill to these taxpayers.

Explanation of Local Revenues: Under current law, property tax payments are due in two equal installments, on May 10 and November 10 of the tax payment year. In some circumstances, the county council may elect to require a single payment (due on May 10) if the tax liability is less than $25. If a county did not complete the abstract of its property before March 15 of the tax payment year, it may elect to send out provisional tax statements to its taxpayers. Provisional bills are based on 100% of the previous year's taxes.

The abstract is prepared when tax rates are certified and tax bills are figured. When the county completes its abstract, the county sends a reconciling statement in the amount of the actual tax liability minus the amount they paid under the provisional bill. If the actual tax is less than the amount paid under the provisional bill, the taxpayer would be issued a refund. If the county treasurer determines that it is possible to send the reconciling statements by October 10, the treasurer may currently request permission from the DLGF to issue the reconciling statement as a replacement for the second installment of provisional taxes.

Under this bill, the provisional bill statutes would be repealed. In all cases (including those where the tax liability is less than $25), the county would have to send out two tax bills: the first bill for 50% of the previous year's taxes would be mailed after January 1 and not later than April 25 of each tax payment year (with payment due by May 10); the second for the remainder of the current year's taxes would be mailed after May 10 and not later than November 30. Taxpayers would either have until November 10 to pay this installment if the statement is mailed or transmitted to them no later than October 25, or 15 days after receipt of the tax statement if it is mailed between October 26 and December 1. If the county fails to mail the second tax bill before December 1, it must then mail a tax statement for the amount of May's tax payment. Reconciling statements would be issued as soon as the county treasurer computes the actual tax liability for all tangible property in the county for the tax payment year.

The bill does not change the date when the auditor has to transmit the county abstract to the treasurer (before March 15). However, under this bill, the county is not compelled to have its abstract ready by March 15 in order to have on-time billing. Theoretically, this date is pushed back to December 1. This may make it easier for counties to manage the tax billing process. If, under current law, the county could collect its total tax liability by November 10 because it sent out its tax bills/reconciling statement on time, then the situation would be the same under this bill with one significant difference in terms of revenue collected: under this bill; the first tax bill would be for 50% of the previous year's taxes whereas under current law it would be only that amount if the county abstract was not prepared on time and the county elected to issue a provisional bill.

Under current law, if a county issues provisional bills for two consecutive years, and a taxpayer becomes eligible for the standard deduction, supplemental standard deduction, or homestead credit in the second year, the county has to apply these deductions to the taxpayer's liability in the second year. In principle, this also applies under this proposal. If the county fails to issue completed tax bills for two consecutive years (because the second tax statement was not ready by December 1), and the taxpayer becomes eligible in the second year for the deductions and credit outlined above, the county must reduce the taxpayer's liability in the second year to reflect the application of these deductions and credit.

Under current law, the county treasurer could issue provisional bills to taxpayers in a cross-county area if, because of a delay in computing the assessed values in the neighboring county, the tax rate for the cross-county area could not be finalized on time. Under this bill, taxpayers in these taxing units, as in the taxing units in the county, would receive a bill for 50% of the previous year's taxes by April 25 of the tax payment year. If the property tax rate of the cross-country entity has not been determined by December 1 because of a delay in finalizing assessed values, and this is the only reason for the delay, the treasurer may issue property tax statements for May's payment in the cross county area. Reconciling statements would be issued once the tax rates are finalized. Taxpayers in the rest of the county would receive their regular tax bill as stipulated by this legislation.

The bill changes how property tax replacement credits under various incentive programs would be distributed to eligible taxpayers. Under current law, one-half of the total credit is applied to each property tax installment (in May and November). Under this bill, the credit would be applied proportionally to each installment.

Request for Property Tax Distribution: Under current law, the county auditor has up to 51 days to distribute tax collections to the appropriate taxing units without incurring any late interest charges. Under this bill, a taxing unit may request a distribution of property tax collections from the county auditor between 10 and 50 days after collection, and is also entitled to collect interest charges if the auditor fails to comply with the date requested. The interest rate would be the same as it would be when the auditor is late under current law, and would cover the period from the date of the request to when the funds were transferred to the taxing unit.

Under this bill, the revenue stream for those counties whose tax bills are late would be more consistent. All tax bills, whether based on current year's taxes or previous year's taxes, would be mailed at a particular time, and counties would at least be guaranteed last year's taxes. In many counties this could restore normal cash flow and reduce or eliminate the cost of short-term borrowing for local civil taxing units and school corporations. This is offset by the added cost of a second mailing, especially if the county would have produced its tax bills on time under current law.

State Agencies Affected: DLGF.

Local Agencies Affected: County Auditors; County Treasurers.

Information Sources: OFMA Property Tax Database.

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